

Section **1**

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# Introduction

## Section 1: Introduction

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### Title 1, History of Internal School Accounting

#### 1959 Internal School Accounting Law

Responsibility and accountability for money within individual schools was first addressed in Tennessee state law when the legislature passed “The Internal School Accounting Law,” Public Chapter 168 of the 1959 Legislative Acts. The act was the legislature’s response to growing public criticism of the inadequate accountability for the ever-increasing amounts of money received and spent in individual schools. The Internal School Accounting Act provided for local boards to authorize individual schools to receive money for student activities and other events, and established activity funds as the property of the respective schools. The act also provided local boards of education and principals with definite authority and responsibility for the proper administration and safekeeping of all such internal school funds.

The Internal School Accounting Law [currently codified as Section 49-2-110, *Tennessee Code Annotated, (TCA)*] further required local boards to provide regulations, standards and procedures and an accounting *Manual* covering the various phases of activity and other internal school fund accounting. Some local boards of education in Tennessee met this responsibility, and with the assistance of individual school principals and school business officials, developed very good systems for the handling of internal accounts. However, many boards made little or no progress in this important phase of school operations.

#### *Tennessee Internal School Uniform Accounting Policy Manual*

Due to the lack of action by many local boards regarding the accountability for internal school funds, in 1976, the legislature added an amendment to Section 49-2-110, *TCA*, which required the Department of Education to prepare a uniform accounting policy manual for local school systems, subject to the approval of the Comptroller of the Treasury and the Commissioner of Finance and Administration. The amendment required each local school system to adopt such manual when issued and maintain all activity fund books and records in accordance with the requirements of the manual. As a result, in 1977, the *Tennessee Internal School Financial Management Manual* was prepared and distributed.

The original *Tennessee Internal School Financial Management Manual* encompassed both accounting procedures and administrative policies in an effort to help bring local boards into compliance with Section 49-2-110, *TCA*. Subsequent additions to and revisions of the Manual continued this dual direction. However, current management trends indicate an increasing shift to school-based

decision making, recognizing that mandated uniform administrative policy for schools in such incredibly diverse economic and social situations might not always serve the best interest of the students, and ultimately, the public. The Tennessee General Assembly acknowledged this trend, and in 1992, provided that local boards could initiate a program of school-based decision making. This trend was also acknowledged during the process of this Manual revision. As a result, the Manual frequently refers to board policy, and the board's responsibility for establishing administrative policy.

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### **Title 2, The Internal School Accounting Act**

The Internal School Accounting Act (Section 49-2-110, *TCA*) provides boards of education and school principals with definite authority and responsibility for the administration and safekeeping of all internal school funds. (Refer to Appendix A for the full text of this statute.) This Act allows school boards to authorize student activity and other internal school funds and determines such funds to be the property of the respective schools.

Each board of education is required to provide reasonable regulations, standards, and procedures for schools, and also to provide an accounting manual for student activity and other internal school funds. The Internal School Accounting Act makes school principals liable for the safekeeping, management and accounting of all student activity and other internal school funds in accordance with this Manual and guidance established by each respective board of education.

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### **Title 3, Purpose, Revisions and Waivers, Exemptions**

#### **Purpose and Applicability of the Manual**

Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds. The purpose of the *Tennessee Internal School Uniform Accounting Policy Manual* is to provide the minimum accounting procedures and documentation necessary to provide the required accountability. Section 49-2-110, *TCA*, requires local systems to adopt this Manual and maintain all books and records in accordance with the requirements of the Manual. **As noted, procedures presented in this Manual represent the minimum procedures that meet the internal control objectives. These procedures are required unless the school develops alternative procedures that provide the same or better controls. Likewise, example forms and reports presented in this Manual contain the minimum information required to be included on the forms or reports; however, a school may add additional information.** (NOTE: Every form required by this Manual is not included in the Appendix.)

The Tennessee Department of Education will make the Manual available to each local board of education and individual school. Money must be provided by the boards of education to implement the procedures contained in this Manual.

#### **Revisions and Waivers**

Any local education agency may request revisions to or waivers of existing procedures by submitting such requests in writing to the State Commissioner of Education together with draft copies of the proposed changes. All requests will be given appropriate consideration, subject to the approval of the Comptroller of the Treasury and the Commissioner of Finance and Administration.

#### **Exemptions**

Organizations composed of parents and teachers or parents and students (including, but not limited to, parent-teacher associations, parent-teacher organizations, band booster clubs, and athletic booster organizations) working in coordination with the schools shall not be required to use or comply with any recordkeeping or accounting requirements provided for in this Manual or other board of education policy manuals, and are also exempt from the accounting, recordkeeping, and other requirements of Section 49-2-110, *TCA*. However, if the activities are accounted for within the school's books and records, through mutual agreement of such organizations and school officials, the accounting and recordkeeping requirements of this Manual will apply.

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### **Title 4, Accountability and General Principles**

#### **Accountability**

Schools must establish procedures to ensure that all student activity funds are handled properly, consistent with the requirements of this Manual, and in a manner that minimizes the impact on instruction. School officials are in a position of public trust and should be held accountable for that trust. Prior to authorizing or requiring collections, management should evaluate the ability of school personnel to provide adequate accountability demanded by the public. Local school boards, directors of schools and individual school principals should never require, authorize, or otherwise sanction school collections that cannot be adequately accounted for.

#### **General Principles**

The board of education must promulgate policies, rules, and regulations pertaining to student activity, cafeteria, and other internal school funds. Such funds shall be administered in accordance with guidelines set forth in this Manual and with any additional rules and regulations adopted by the board of education.

While the methods of recording and reporting transactions vary depending on the size of the school and the extent of computer use, basic information related to internal school fund transactions must be prepared and retained on file, regardless of the accounting methods used. **NOTE:** All manually prepared documentation (e.g., ticket reconciliations, collection logs) should be recorded in permanent ink.

Each principal shall ensure that all school personnel comply with the Manual and with any additional regulations, standards, or procedures for student activity, cafeteria or other internal school funds established by the board of education. School principals should participate in the preparation, modification, and interpretation of policies, regulations, and procedures that affect student activity, cafeteria and other internal school funds.

The following principles must be adhered to when developing rules and regulations for internal school funds:

1. Since Tennessee public schools are referred to as being “free” (Section 49-6-3001, *TCA*), money raised by students must be used to finance normal and legitimate extracurricular activities. Student activity funds should be used to supplement and not replace funds necessary to fulfill

the local board's obligation to provide an instructional program, property, equipment, and salaries.

2. Money or property received by a school official, employee, or volunteer, acting in his or her official capacity, becomes public money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.
3. Activities or events that generate student activity money should, in general, contribute to the educational experience of students and should not conflict with, but add to, the school's instructional program.
4. School fundraising and the use of school facilities or equipment for the raising of student activity money should be in accordance with the school system's policies. The cost of using school facilities should be considered in drafting these policies. In the absence of related board of education policies, school fundraising is prohibited.
5. Money restricted for the use of a specific group should be spent in such a way as to benefit those students currently in school who have contributed to the accumulation of such money.
6. Whenever possible, student body representation should be required in order to enhance the democratic management of student activity money to be raised and expended by, or for, the student body.
7. Activities and events organized to raise funds for either the student body as a whole or for a select or special group or segment of the student body shall be conducted on a voluntary basis only. Students who do not participate in such activities or events shall not be punished or discriminated against in any way. Likewise, a student's grade shall not be affected as a direct result of participation in, or lack of participation in, any fundraising activities or events.